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SUBJECT: TAIWAN'S FIXED NETWORK LICENSING: AGAIN, NO BIDDERS

REF: (A) TAIPEI 3748, (B) TAIPEI 2900, (C) TAIPEI 1998

1. Summary: In two consecutive open seasons, Taiwan's Directorate General of Telecommunications (DGT) has received no interested applications for fixed network licenses. The 2005 spring open season for applications closed on March 31, 2005. Industry watchers are pessimistic about the prospect of further interest as long as Chunghwa Telecom (CHT), the dominant player in the sector, remains state-owned. Despite DGT's relaxation of the licensing criteria last September, new players do not yet see sufficient incentives to enter Taiwan's already competitive market. End Summary.

2. On February 24, 2005 DGT announced open seasons during the months of March and September 2005 to accept applications and issue comprehensive fixed network licenses to those interested in the local, long-distance and international call businesses. As was the case in September 2004, no bidders applied to DGT in March 2005.

3. Industry watchers were not surprised that newcomers expressed little interest in making a substantial financial commitment in a market dominated by government-owned CHT. Three private telecom operators invested nearly 200 billion NT dollars (USD 5.7 billion) in 2000 when DGT first issued fixed network licenses. Four years later, these "new" entrants remain marginal players in the sector. In 2004, CHT continued to lead the local, long-distance and international call market shares with 96.8 percent, 78.1 percent and 55.5 percent, respectively, in terms of total revenues. For the same year, CHT's total fixed network and ADSL subscriber market share stood at 97.9 percent and 99 percent, respectively.

4. Comment: DGT remains reluctant to further lower the paid-in capital requirement that was set to thwart unqualified speculators from entering the market. However, the real barrier for new entrants is CHT's reluctance to loosen its grip on the "last mile" - fixed network access to business and residential buildings. Both foreign and domestic operators, newcomers as well incumbents, have avoided entering competition with Chunghwa Telecom, because it has been slow to enter into reasonable leasing agreements with competitors. One industry analyst told AIT that unless the Taiwan government spins off its majority stake in CHT foreign companies will continue to avoid the market. The same analyst, however, noted that several European companies are exploring Taiwan as a potential target as they diversify away from saturated home bases into growing markets in Asia. End Comment.

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